

**DOCKET SECTION**

**UNITED STATES OF AMERICA  
BEFORE THE  
POSTAL RATE COMMISSION  
WASHINGTON, D.C. 20268-0001**

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**In the Matter of** :  
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**Postal Rate and Fee Changes, 1997** : **Docket No. R97-1**  
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**PRETRIAL BRIEF OF  
THE BROOKLYN UNION GAS COMPANY  
ON  
PREPAID REPLY MAIL ISSUES**

**The Brooklyn Union Gas Company**

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**Dated: February 10, 1998  
Washington, D.C.**

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Pursuant to the revised procedural schedule in this case, The Brooklyn Union Gas Company ("Brooklyn Union") hereby submits its pretrial brief on issues relating to the United States Postal Service's ("Postal Service") proposal to implement a new rate category for Prepaid Reply Mail ("PRM"). Brooklyn Union is pleased to see that the Postal Service has taken the initiative to offer prepaid reply mail recipients more choices and, with a few exceptions described below, generally supports the Postal Service's PRM proposal in this case.

**BACKGROUND**

Brooklyn Union is a large utility mailer that provides natural gas service to approximately 4 million consumers in New York City. For over twenty years, Brooklyn Union has paid the postage on customer payment remittances by enclosing Business Reply Mail ("BRM") envelopes along with the bills for gas service that are sent to customers periodically. When the

Postal Service instituted the automated Business Reply Mail Accounting System (“BRMAS”), Brooklyn Union began enclosing BRMAS envelopes with its customer bills.

In this case, the Postal Service is proposing to implement a new PRM rate category for participating prepaid mail recipients. Under the Postal Service’s proposal, reply mail recipients who elect to participate in the PRM program would prepay postage for the expected amount of PRM mail returns, perform the counting, rating, and billing functions normally performed by Postal Service personnel, agree to appropriate audit procedures that will assure that the Postal Service receives the correct amount of postage, and pay a monthly fee of \$1,000 to cover the Postal Service’s costs associated with the auditing and accounting functions. In return, the PRM recipient would pay a rate of 30 cents per piece on each PRM envelope received, 3 cents less than the Postal Service’s proposed rate for non-presorted First Class letters. *See*, Trial Brief Of The United States Postal Service at 28, 35-36; USPS-T-32 (testimony of witness David Fronk) and USPS-T-23 (testimony of witness Michael Miller).

Brooklyn Union has presented testimony on PRM mail issues through its witness Richard E. Bentley. Mr. Bentley, the President of Marketing Designs, Inc. a marketing and consulting firm, has wide and varied experience in postal matters, having testified in Postal Rate Commission proceedings both when he served as a member of the Officer of the Commission’s technical staff and as a private consultant. *See*, BUG-T-1 at 1 and Attachment 1. Of particular significance for this proceeding, Mr. Bentley has substantial experience with issues involving the determination of appropriate rates for reply mail services, including BRMAS BRM. *Id.*

## **ARGUMENT**

At the outset, as Mr. Bentley testifies,<sup>1</sup> Brooklyn Union views favorably the principles that underlie the Postal Service's PRM initiative in this proceeding:

- offering new, more flexible service options to mailers where the facts and circumstances warrant such offerings; and
- implementing rates that more closely reflect the costs of relevant services, such as PRM.

In addition, Brooklyn Union specifically endorses the Postal Service's proposals for the mailer precertification program for determining postage due and the proposed \$1,000 per month fee related to Postal Service auditing of accounting procedures performed by the PRM mail recipient. Indeed, as discussed more fully below, there are only two relatively minor modifications to the Postal Service's PRM proposal that the Commission should consider: (1) postage should be paid on PRM reply letters as and when they are received, rather than through the Postal Service's cumbersome proposal to have PRM postage "prepaid" based on estimated return quantities, and (2) PRM reply letters should be required to be addressed to a post office box to insure that such pieces will avoid the Service's carrier delivery system and the higher unit costs associated with that system.

### **A. The Postal Service's PRM Proposal Is Justified By Appropriate Costing Analyses**

As Mr. Bentley notes, the Postal Service is proposing the same 30 cent per piece rate for PRM and Qualified BRM ("QBRM").<sup>2</sup> The purpose of these new rates is to have postage charges

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<sup>1</sup> BUG-T-1 at 3.

<sup>2</sup> BUG-T-1 at 4-5.

more accurately reflect the costs involved in processing and delivering the mail. The Postal Service's proposed rates for PRM and QBRM are based on the savings associated with processing automation-compatible letters that are prebarcoded.<sup>3</sup>

As Mr. Bentley observes, however, the PRM concept "takes reply mail cost savings one step further."<sup>4</sup> While the primary purpose of the \$1,000 per month PRM fee is to cover the Postal Service's cost of establishing and maintaining adequate auditing procedures, the fee also has the added benefit of insuring that PRM mail will be received in bulk quantities.<sup>5</sup> The benefits of guaranteed high mail volumes are twofold. First, with PRM, the Postal Service will be assured of *additional* cost savings (i.e. cost savings above and beyond those achieved by using automation-compatible, prebarcoded mail pieces) because reply mail received in large quantities will be able to bypass various postal processing operations, such as the sort to carrier route, the incoming secondary sort, and, in some cases, the incoming primary sort. Second, receiving reply mail in large quantities makes it economically feasible and attractive, to both the recipient *and the Postal Service*, for the reply mail recipient to assume responsibility for the costly counting, rating, and billing functions normally performed by Postal Service personnel.

Mr. Bentley's analyses show that the cost to process and deliver PRM reply letters

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<sup>3</sup> BUG-T-1 at 5-6.

<sup>4</sup> Id.

<sup>5</sup> In this regard, Postal Service witness Fronk estimated the absolute minimum "breakeven" volume for a PRM recipient at 200,000 pieces per year. USPS-T-32, Workpaper III. As Mr. Bentley shows, however, such a volume estimate is too low in light of the additional administrative costs that individual PRM recipients will incur for establishing appropriate procedures to insure accurate mail counts and postage paid reporting, ongoing costs of maintaining and optimizing such procedures, and the costs associated with satisfactorily completing the Postal Service's periodic sampling and audit procedures. BUG-T-1 at 6, fn 3.

will be less than the cost of delivering an average First Class Automation letter. BUG-T-1 at 10, Table I and Exhibit BUG-1A. As Mr. Bentley concludes:

Under the Service's proposed rates, PRM will contribute over 6 cents more per piece to institutional costs than First-Class Automation Mail, and over 8 cents more per piece to institutional costs than an average First-Class letter. Because of the disparity in the relative required unit institutional cost contributions, the logic and fairness for charging PRM a reduced rate of 30 cents becomes abundantly clear.

For all of these reason, a unit postage rate of 30 cents for PRM is more than justified based on the relevant facts and demonstrated cost savings that will be achieved by this type of mail..

**B.     The Postal Service's Proposed Accounting Procedure Is Unnecessarily Complicated**

Under the Postal Service's PRM proposal, a PRM recipient would be required to "prepay" postage on PRM reply pieces when they are distributed "based on average percentage of envelopes returned, not on the full number of envelopes distributed."<sup>6</sup> Thereafter, when PRM envelopes are returned to the recipient, the Postal Service and the recipient would reconcile the difference between the estimated postage paid and the actual postage due based on actual PRM returns, and adjust the recipient's advance deposit account accordingly. Mr. Bentley's review of the Postal Service's proposal shows that there is no legitimate justification for this unduly complicated accounting procedure.

As Mr. Bentley explains, the existing advance deposit account mechanism for paying postage on BRMAS BRM reply envelopes should provide a guide to resolving this issue. Under the existing accounting system used for BRMAS BRM, BRMAS recipients are not required to make

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<sup>6</sup> USPS-T-32 at 6.

estimates of, and prepay postage on, reply mail return volumes when their reply mail envelopes are distributed. “They are simply required to have adequate funds on deposit to cover the cost of postage before the reply mail pieces are delivered to them by the Postal Service.”<sup>7</sup> As Mr. Bentley testifies, a far more workable system would be for the Postal Service to determine initially an appropriate minimum balance on a case-by-case basis and, thereafter if necessary, for the Postal Service and the recipient to adjust the minimum amount based on actual experience. This system would obviate the need to derive complicated estimates of return mail percentages and eliminate the need to reconcile and adjust the PRM recipient’s advance deposit account after-the-fact.

As Mr. Bentley also observes, using the BRMAS BRM advance deposit accounting system as a model for PRM service would also have the advantage of smoothing the transition to PRM service for potential PRM recipients since, at least initially, most of the PRM reply mail volume will come from current BRMAS BRM recipients who elect to migrate to the new more flexible PRM service.

Mr. Bentley also recommends that, if the Commission adopts his recommendation regarding the accounting mechanism, the name of this new service be changed to Bulk Automated Reply Mail (“BARM”) to avoid confusion.<sup>8</sup>

**C. PRM REPLY PIECES SHOULD BE REQUIRED  
TO BE DELIVERED TO A POST OFFICE BOX**

Brooklyn Union also recommends that PRM or BARM be required to be addressed to a post office box.

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<sup>7</sup> BUG-T-1 at 12.

<sup>8</sup> *Id.*

Reply mail, especially time sensitive high volume reply mail, is usually addressed to a post office box and/or delivered to the recipient in “firm holdout.” This procedure generally results in the recipient receiving his reply mail pieces sooner than they would be if they have to be delivered by a carrier. This procedure also results in substantial cost savings –approximately 4 cents per piece-- for the Postal Service.<sup>9</sup>

While the cost savings associated with delivering reply mail pieces to a post office box or firm holdout generally inure to the Postal Service as a matter of course, Mr. Bentley recommends that PRM or BARM recipients be *required*, as a condition of receiving this new reply mail service, to have their reply mail envelopes addressed to a post office box. As Mr. Bentley explains, “[t]his requirement will *insure* that the Postal Service will, in fact, realize additional cost savings because, *by definition*, all PRM will by-pass the delivery network and will be picked up by the recipient.”<sup>10</sup>

### **CONCLUSION**

For all the foregoing reasons, the Commission should approve the Postal Service’s new prepaid reply mail proposal with the following modifications:

(1) the cumbersome accounting procedure proposed by the Postal Service should be rejected in favor of a simpler mechanism modeled on the existing accounting procedure for BRMAS BRM recipients, and

(2) the Commission should require that prepaid mail pieces be addressed to a post office

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<sup>9</sup> See, Exhibit USPS-29C, p. 1 (revised October 1, 1997).

<sup>10</sup> BUG-T-1 at 7.

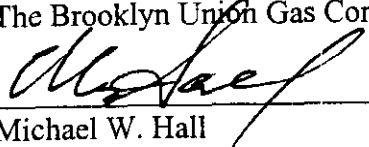


box, to assure that the Postal Service maximizes the cost savings made possible by this highly efficient type of mail.

Respectfully submitted,

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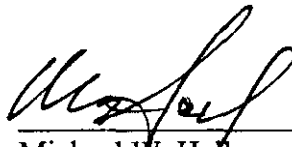
Dated: Washington, D.C.  
February 10, 1998

Of Counsel for  
The Brooklyn Union Gas Company

**CERTIFICATE OF SERVICE**

I hereby certify that I have this day served the foregoing document upon all participants of record in this proceeding in accordance with Section 12 of the Rules of Practice.

Dated at Washington, D.C., this 10th day of February, 1998.

A handwritten signature in black ink, appearing to read 'Michael W. Hall', is written over a horizontal line.

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